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The Treasury Note

A monthly newsletter of California municipal finance.
July 1, 2003

UCLA Anderson Forecast

The UCLA Anderson Forecast issued its quarterly economic report for California and the nation on June 5, 2003. The Forecast noted that California was still mired in a recession at the end of April 2003, and predicted the downturn would end in the second half of the year. For the nation, the Forecast predicted a weak 2.5 percent growth rate through 2003, which is below a 3.3 percent normal growth rate, but substantially above recession levels.

Furthermore, Edward Leamer, Director of the Anderson Forecast, explained that because of the unique business-driven national recession of 2001, a "recovery" on the consumer side is impossible as consumer spending never weakened. Crediting aggressive and accommodative Federal Reserve Board policy in 2001 and 2002, Dr. Leamer attributed consumer strength to historically low interest rates. He expressed an optimistic belief that the country would transition to a period of normal growth over time but cautioned to expect an unemployment rate of no better than 6 percent until business investment and spending return.

In particular, Dr. Leamer's forecast made note of the nation's manufacturing sector job losses. The Director explained that job losses in the manufacturing sector began in late 2000 and have continued unabated totaling 2.5 million lost jobs to date. In contrast, all sectors outside of manufacturing experienced a rapid loss of 850,000 jobs in the second half of 2001, however these sectors have since stabilized. Dr. Leamer believes

the lost jobs in manufacturing were permanently "lost" to Asia and Mexico and questions the implications this trend has for the American middle class in the 21st Century.

Regarding federal tax cuts, Dr. Leamer stated, "There cannot be a tax cut without a spending cut. There can only be a tax postponement." He explained that the federal government continues to borrow money to pay bills not covered by current tax receipts with the premise that it will be easier to pay the taxes later, a "tax postponement." Dr. Leamer speculated that the future work force would more than likely find it harder to pay these postponed taxes as the country's demographic problem compounds with the start of the baby boomer retirement in 2010.

For California, Tom Lieser, Senior Economist with the UCLA Anderson Forecast, projected a slightly weaker forecast than in March 2003. Dr. Lieser explained that the State lacked significant growth in jobs, real income, or retail sales. He noted that nonfarm employment declined 0.1 percent in the first quarter of 2003, with further erosion again in April. The Forecast projected total nonfarm payroll employment to increase by 0.4 percent in 2003, following a first-half decline, and to improve to 1.8 percent in 2004. The Forecast predicted California's unemployment rate, currently at 6.7 percent, to remain fixed through 2003, falling only slightly to 6.6 percent in 2004. In addition, Dr. Lieser forecasted an increase of 2.5 percent in

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Bond Sales Calendar

If you are interested in purchasing any of the bonds listed below, please contact your broker two weeks before the sale date. For up to date information, check our website (www.treasurer.ca.gov) or contact *Investor Relations* at (800) 900-3873.

PROPOSED BOND SALES	AMOUNT	SALE DATE
California Infrastructure and Economic Development Bank: Bay Bridge Seismic	\$750 - \$950 million	August 2003
Revenue Anticipation Notes ³ (RANs)	\$3 billion	September 2003
Pension Obligation Bonds	\$2 billion	September 2003
General Obligation Bonds: Fixed Rate	\$2 billion	Fall 2003
Veterans General Obligation Bonds	To be determined	Fall 2003
General Obligation Bonds: Variable Rate	\$500 million	Fall 2003
State Public Works Board: Various Projects	\$250 million	Fall 2003
State Public Works Board: Various Projects	\$450 million	Fall 2003
California Infrastructure and Economic Development Bank: State Revolving Fund	\$75 million	To be determined

¹Subject to change.

²Economic refundings may be added.

³Estimate based on May Revision cash flows.

UCLA Anderson Forecast

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personal income for 2003, following a gain of 0.9 percent in 2002. Exclusive of any upsets to the financial markets, the Forecast projected a gain of 4.3 percent in personal income for 2004. The Forecast also projected taxable sales, after decreasing by 1.3 percent in 2002, to strengthen to a modest rate of 2.5 percent in 2003, and to improve to 5.0 percent in 2004.

Finally, Dr. Lieser noted one positive exception to California's weak economy, residential real estate. Building permits for new housing units averaged approximately 212,700 at a seasonally adjusted annual rate in the first quarter of 2003. A chronic shortage of new housing has produced statewide median home price appreciation of more than 50 percent over the last three years. Overall, Dr. Lieser expected an end to California's economic downturn in the second half of 2003, predicting that the national economy, relying on the strength of those states not on the west coast, would pull California into a modest economic expansion.